

VZCZCXRO6667

PP RUEHAG RUEHCHI RUEHDT RUEHHM RUEHNH RUEHROV RUEHSR

DE RUEHPF #1027/01 3600352

ZNY CCCCC ZZH

P 250352Z DEC 08 ZDS

FM AMEMBASSY PHNOM PENH

TO RUEHC/SECSTATE WASHDC PRIORITY 0251

INFO RUCNASE/ASEAN MEMBER COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES PRIORITY

RUEHBJ/AMEMBASSY BEIJING PRIORITY 2555

RUEHBY/AMEMBASSY CANBERRA PRIORITY 2355

RUEHMO/AMEMBASSY MOSCOW PRIORITY 0426

RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0188

RUEHUL/AMEMBASSY SEOUL PRIORITY 0699

RUEHKO/AMEMBASSY TOKYO PRIORITY 3253

RUEHWL/AMEMBASSY WELLINGTON PRIORITY 0129

RHMFIS/CDR USPACOM HONOLULU HI PRIORITY

RHHMUNA/HQ USPACOM HONOLULU HI PRIORITY

RUEKJCS/CJCS WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY 0152

RUCNDT/USMISSION USUN NEW YORK PRIORITY 2352

RUEHGV/USMISSION GENEVA PRIORITY 1691

RUEKJCS/DOD WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 04 PHNOM PENH 001027

****CORRECTED COPY (CLASSIFICATION MISMATCH)****

SIPDIS

NOFORN

STATE FOR EAP/MLS, D, P, INR

PASS TO USTR - D. BISBEE

NSC FOR L. PHU

E.O. 12958: DECL: 12/24/2018

TAGS: [PREL](#) [PGOV](#) [CH](#) [CB](#)

SUBJECT: CAMBODIA'S YEAR OF CHINA (C-AL8-02576)

REF: PHNOM PENH 1003

PHNOM PENH 00001027 001.2 OF 004

Classified By: AMBASSADOR CAROL A. RODLEY FOR REASONS 1.4 (B,D)

11. (SBU/NF) SUMMARY: China has spared no effort this year in celebrating the 50th anniversary of bilateral relations with Cambodia. This elaborate and lavish effort to court Cambodia,s top leadership -- with royal banquets, trips to Beijing, the first-ever visit by a Chinese warship, and high-level visitors -- reveals a China set on achieving a new apogee in relations with Cambodia and by extension, with Southeast Asia. Cambodia's primary response to these overtures has been to cite China as a model of "blank check" diplomacy but simultaneously to maintain a steely pragmatism by which Cambodia balances China with others, including the U.S. China will figure prominently in any RGC balancing act that leverages the continued engagement by all of the Paris Peace Agreement signatories. In addition to a growing assistance package, China,s trade and investment ties are deepening, with China among the top investors in the last five years and bilateral trade likely to reach USD 1 billion this year. Cambodia,s physical proximity to China in the Greater Mekong Subregion shrinks every year with new road and developing rail connections. And while English schools may have surpassed the influx of Chinese schools of a decade ago, this may paradoxically serve to draw Cambodia ever closer to China,s doorstep as Cambodia,s "Year of China" looks to become its "Century of China." END SUMMARY.

12. (SBU/NF) The celebration of 50 years of Chinese-Cambodian relations had two symbolic high points this past year. King Norodom Sihamoni,s attendance at the Beijing Olympics (where he mingled with the likes of President Bush) and a Royal Banquet in Phnom Penh hosted by the Chinese Embassy and attended by the King. Prime Minister Hun Sen,s meetings with a long train of Chinese officials over the year have

been more workmanlike in character. For Cambodia, the anniversary of 50 years of friendship and cooperation with China is one more opportunity to seek development assistance to bolster a strategy to build infrastructure and bring Cambodia into the world economy. The Cambodian strategy appears to be paying off handsomely: China pledged \$256 million in bilateral assistance for 2009, the highest single donor-country contribution to Cambodia ever. Ironically, as Cambodia moves increasingly into the global economy, China's economic influence here may decline.

Warming Relations - One Visit at a Time

13. (SBU) The list of Chinese visitors is so long that the Chinese Embassy's Political and Economic officers have complained to emboffs that they never get any rest. PRC Foreign Minister Yang Jiechi first visited in February to kick off the bilateral "Year of Friendship". He announced some USD 55 million in assistance and pledged a total Chinese investment of USD 1 billion in the power sector. Just about every week thereafter, a steady stream of technical advice teams have visited Cambodia. Jiechi also noted extensive plans for growing political, cultural, educational, sports and other exchanges. All the while, major infrastructure projects, such as dams in the southwest built by Sinohydro (reftel) or a major road to the newly designated UNESCO World Heritage site at Preah Vihear continue to be built by Chinese construction companies. A Chinese warship also visited Cambodia this year -- the first ever, it followed China's gift of seven sea-going patrol boats.

14. (SBU) Cambodian official visits to China have been equally numerous. Cambodian national elections put a damper

PHNOM PENH 00001027 002.2 OF 004

on these visits in the first half of the year; however, since October, PM Hun Sen, DPM Sar Kheng, and DPM Sok An have paid calls on their counterparts in China. Senate President Chea Sim, head of the Cambodian Peoples Party (CPP), also led a delegation to Beijing. National Assembly President Heng Samrin will lead a Cambodian delegation of lawmakers to China in January 2009.

The Sihanouk Connection

15. (C/NF) King Father Sihanouk's complex relations with the PRC's political elite since the 1950's explain another deep-rooted "Chinese connection" of Cambodia. However, because the relationship is highly personalized, it also marks some of the boundaries on Chinese influence on Cambodia's internal affairs and external relations. From his close relationship with Zhou Enlai to Sihanouk's reliance on Chinese support of a national front movement when he was toppled by Lon Nol in 1970, to his permanent residence in Beijing -- where he resides about six months out of the year, undergoing medical treatment for cancer -- the King Father has charmed countless generations of Chinese leaders. Just this past February, Premier Wen Jiabao called on the King Father at his Beijing residence to convey Lunar New Year greetings. However, like the residence itself, the relationship is more or less the "property of China" and will revert to the PRC upon Sihanouk's death. When King Norodom Sihamoni ascended to the throne in 2004, he brought only a glimmer of his father's personal relationship to his new role. The Chinese Ambassador recently confided that she has little interaction with the "new" king.

Pragmatic Foreign Policy

16. (SBU/NF) Cambodia over the past decade has demonstrated time and again that it will work with any government that shows its dedication to Cambodian development, preferably on Cambodian terms. Taiwan for many years was a welcome

addition to the donor and business community in Phnom Penh because of its contributions. (In 1997, the RGC reversed its stand and has since announced full support for a one-China policy.) Nations that bring investors or donations flourish and have a certain degree of access and influence. However, when Cambodian national finances or sovereignty are at stake, the RGC has shown that it can be a tough negotiator with all friends. As an active member of the WTO and ASEAN -- and more recently a contributor of peacekeeping troops to the UN -- Cambodia is intent on developing an outward-looking foreign policy that not only ensures legitimacy in the world community but protects against entangling alliances.

Cambodia Can Never Forget

¶7. (SBU/NF) An important section in Hun Sen's recent biography (compiled by CPP admirers) notes that when he was Foreign Minister one of Hun Sen's great achievements was to secure the neutral stance of the Non-Aligned Movement towards Cambodia's membership in the United Nations. At the time, the newly formed People's Republic of Kampuchea (PRK) supported by tens of thousands of Vietnamese troops, was desperately seeking international legitimacy, including membership in the UN, then held by the Democratic Kampuchea of the Khmer Rouge. However, in 1979 the U.S. would not back the Vietnamese-supported PRK and China, which had just concluded a border war with Vietnam, sided with the U.S. The Democratic Kampuchea flag of the Khmer Rouge flew over the United Nations until 1991. Hun Sen often cites this moment

PHNOM PENH 00001027 003.3 OF 004

in history as one indication of the flaws of the UN, and by inference, of its two leading P-5 members. Cambodians, with the help of the Vietnamese, expunged the genocidal Khmer Rouge from their midst by themselves. The U.S. and China took Cold War positions in favor of a coalition that included the Khmer Rouge. As his many speeches attest (including one as recent as early December 2008), Hun Sen does not forget -- the RGC inherently does not trust its big friends, China included. (COMMENT: We expect, therefore, that Cambodia will continue to play its balancing act among great powers as it charts its own course in the future. END COMMENT.)

Assistance Blossoming: Blank Check Diplomacy

¶8. (U) During a recent visit to Cambodia by 200 government officials and private business representatives lead by Jia Qinglin, Chairman of the National Committee for the Chinese People's Political Consultative Conference, the two countries reiterated their commitment to greater economic and trade cooperation. Cambodian Senate President Chea Sim described China as a close friend and cooperative partner. China is Cambodia's largest source of foreign aid. In 2007, China pledged USD 600 million in assistance and recently announced USD 256 million in aid for 2009. (By contrast, European countries pledged a total of USD 213 million for 2009, Japan pledged USD 112 million, and the U.S. pledge -- not yet announced -- is likely to be approximately USD 50 million.)

¶9. (SBU) Chinese assistance is mostly in the form of concessional loans. Of the USD 256 million in aid pledged for 2009, only an estimated USD 17 million is grants; the remaining USD 240 million is loans. These loans target infrastructure projects, such as roads, bridges, and hydropower projects, and oil and mineral exploration. These preferential loans are often used to support projects invested in by Chinese companies. With a USD 10 million grant and USD 20 million soft loan, the Yunan Construction Company just built the prominent Council of Ministers offices, a notably modern building which sweeps in front of one of Phnom Penh's classic French gateway avenues. The Chinese are proposing to build more offices in the Senate. Prime Minister Hun Sen repeatedly praises Chinese aid to Cambodia's other donors, citing its "no strings attached"

feature, although many point to the Chinese access to mineral and resource wealth as one among a number of non-transparent quid pro quos.

Trade and Investment Booming

¶10. (U) A decade ago the heavy influx of Chinese-language schools was seen as a sign of Cambodia's deepening relations with China. Nowadays, virtually every major street corner in Phnom Penh is graced with an English school packed with hundreds of students. The best go on to Pannasastra University, with its all-English curriculum. Paradoxically, this phenomenal growth in English is fueling even stronger economic relations with China. English, after all, is the language of trade.

¶11. (U) Trade ties between the two countries continue to grow. In the first nine months of the year, trade between the two countries was valued at USD 912,817,000, an increase of forty percent year on year. In 2007, trade flows were estimated at USD 933 million, up from 482,426,000 in 2004. The number of Chinese tourists visiting Cambodia is rising. In the first seven months of the year, Chinese tourists accounted for 6.3 percent of foreign visitors to Cambodia, up from 5.4 percent in 2007. (U.S. tourists accounted for 7.2

PHNOM PENH 00001027 004.2 OF 004

percent in the first seven months of 2008 and 5.6 percent in 2007.)

¶12. (U) There are more than 3,000 registered Chinese companies operating in Cambodia. Chinese investment in Cambodia grew significantly in 2008, accounting for 43.5 percent of foreign direct investment projects approved during the first nine months of 2008. In 2004 and 2005, China was also the largest investor, accounting for 31 percent and 33 percent of total approved investment projects respectively. However, China slipped to second place in 2006 (behind South Korea) and stayed there in 2007 (behind Malaysia). Chinese companies are estimated to have invested over USD 1.76 billion to date, primarily concentrated in the areas of garment factories, agriculture, infrastructure, energy, and tourism. In terms of accumulated registered capital, from 1994 to 2008, Malaysians have outstripped Chinese investors by almost three to one; the Chinese have registered about USD 560 million.

¶13. (SBU/NF) Given the strong economic and trade ties between the two countries and the amount of resources China brings to the table, China is able to influence Cambodia's foreign and domestic economic policies. In 1999, Hun Sen shut down a Taiwan commercial office in Phnom Penh, overruling the Phnom Penh municipality. The promise of access to Chinese resources, either through aid, loans, or investment, serves as a strong incentive for Cambodian decision-makers to award economic or concession contracts that favor Chinese investors.

Comment

¶14. (SBU/NF) China's strong economic influence can be counterproductive to donor efforts in linking assistance to improvements in good governance and fighting corruption. Similar to the situation among Southeast Asian neighbors, Chinese money with few strings attached can exacerbate corruption and unbridled natural resources exploitation. The lack of transparency in the economic relationship and the decision-making process in general enables the politically connected to benefit from concessions at the expense of the Cambodian people and the environment. That said, whether China has the inside track in Cambodia for the long term remains to be seen.

RODLEY